

Realty Trust Review

February 10, 1978

© 1978 Audit Investment Research, Inc.

VOL. IX, No. 3

INVESTMENT SELECTION & REVIEW ISSUE

Investment reviews: Opportunities among 10 RTR newcomers plus one rebounder.....1	
American Equity Inv. Trust.....2	Prudent Real Estate Trust.....8
Citizens Growth Properties.....2	Real Estate Investment Props.....4
Commonwealth Realty Trust.....7	REIT of California.....6
Delaware Valley Rlty. & Mtg.....8	Terrydale Realty Trust.....5
General Real Estate Shares.....3	University Real Estate Trust.....7
Pittsburgh & W. Vir. RR.....5	

INVESTMENT SELECTION & REVIEW: OPPORTUNITIES AMONG 10 RTR NEWCOMERS PLUS ONE OLDIE

Last issue we added shares of 11 real estate investment trusts to our list of REIT securities for statistical coverage and review. It marked the largest group of trusts we've ever added to our coverage at one time and was done to continue to bring to your attention real estate securities suitable for income, capital gains and other goals.

Most trusts added are smaller property (or equity) trusts with assets below \$100 million. This is in keeping with the current investor accent on "small is beautiful," meaning that small, compact portfolios of real estate assets often are easier to manage or solve problems than large conglomerations of assets.

But small is not always beautiful for many securities brokers whose income often depends upon rapid turnover of shares of heavily traded glamour stocks. This puts most smaller trusts into the over-the-counter market where trading is inactive and spreads between bid and asked prices are often so wide that the range can often be 50% or more for issues in the \$1-\$2 range. Finding a broker willing to buy these shares for your own account may thus take a bit of inquiry and persistence.

Rewards can often be handsome, especially for income investors. Prices generally fluctuate in narrower ranges and the dividend is often more stable and predictable, making these shares more comfortable holdings for investors needing income. We present in this issue brief reviews of ten newcomers (all but General Real Estate Shares pay dividends) and review of a more familiar name, Citizens Growth Properties, which now becomes a special situation as recent events have substantially altered the liability exposure and outlook.

Among dividend payers, Pittsburgh & W. Va. RR is virtually a bond with no increases likely; Real Estate Inv. Props. is mainly a hotel/motel play with dividend uptick potential; REIT of California providing a fair yield; Commonwealth yielding about 8% now but with upside as new properties mature; Delaware Valley providing a higher yield on a specialty loan portfolio; Terrydale with room for improvement after being flat and Prudent earning sub-par. General could resume payouts in 1-2 years and Citizens Growth is a longer-term recovery speculation.

KENNETH D. CAMPBELL, EDITOR AND PUBLISHER, BERNARD SOLAS, C.F.A., DIRECTOR OF RESEARCH / AUDIT INVESTMENT RESEARCH, INC., 230 PARK AVENUE, NEW YORK 10017

REALTY TRUST REVIEW, REAL ESTATE DISCLOSURE DIGEST, DISCLOSURE REPORTS ON PROBLEM PROPERTIES, and special industry investment reports are published by Audit Investment Research, Inc., an independent investment advisor registered with the Securities and Exchange Commission under the Investment Advisers Act of 1940. Under no circumstances is anything contained herein to be construed as an offer to purchase or a solicitation to sell any security mentioned. Information has been obtained from sources believed to be reliable and reasonable care has been exercised in compilation, but accuracy or completeness cannot be guaranteed. Expressions of opinion are solely the responsibility of the publisher and may be changed at any time without notice. Advisory services are mailed to reach subscribers no later than the Monday following publication date. Audit's officers, employees and printers are not permitted to trade upon any recommendation until the Tuesday following. Subscriptions may not be assigned without consent and unused portion refunded on request.

PUBLISHED TWICE MONTHLY ON THE SECOND AND FOURTH FRIDAYS / SUBSCRIPTIONS \$136 ANNUALLY / SINGLE COPY \$7 / BACK ISSUES \$1.25 TO SUBSCRIBERS ONLY
GROUP RATES ON REQUEST

AMERICAN EQUITY INVESTMENT TRUST (5 3/4-6 3/4 OTC--AEQTS) FY Dec. 31

Background: The trust is sponsored by Life Investors Insurance Co., Cedar Rapids, Iowa life insurance holding company, as part of the equity portion (along with mutual funds) of its variable annuity plans. The trust began operations in 1971 and now controls nearly \$75 million gross assets before depreciation. Dividends have been paid in every year since inception, the last three years from capital or capital gains.

Real Estate Investments: Net invested assets stood at about \$68.5 million at the end of 1977 after \$10.4 million accumulated depreciation. Properties are held subject to about \$50 million secured mortgage debt, including some purchase money second mortgages. Mortgages on properties sold account for about 15% of invested assets. AEIT stresses ownership of apartments and about 83% of investments are garden apartments with about 4,800 dwelling units. Remaining assets are 11% office buildings, 4% motels, and 2% shopping centers.

About 1,000 apartments are in Dallas, with the remainder in Florida, Georgia (Savannah), and homestate Iowa. Most are about five years old and all are managed by Life Investors Realty Co., affiliate of the advisor, with the goal of maintaining tight controls and being the market leader in rents and profitability. During 1977 the trust converted nearly all its Texas apartments from central meters to individual tenant meters, taking the lead among landlords in some cities like San Antonio. AEIT aims to earn 9% cash-on-cash invested initially for its units, letting rent increase boost yield. Rents rose about 8-9% during 1977 while expenses were up only 6-7%, boosting apartment yields.

Office buildings total about 300,000 sf and all are well occupied suburban properties except the largest, 82,000 Legal Arts tower in downtown Louisville suffering from overbuilding.

Shopping centers are small at only 154,000 sf while the three motels with 546 rooms are performing extremely well. Interstate locations with national franchises (two Holidays Inns, one Ramada) were stressed and this has produced good results.

Financing: Properties are financed with about \$50 million mortgage debt, including some purchase money second mortgages given to former owners when property was bought. Some of this debt is being refinanced during 1978.

Management: Life Investors Insurance Co. of Amer. administers day-to-day affairs for a fee running at about 0.42% of invested assets in 1977.

Dividends: Paid quarterly depending upon earnings and cash flow. Payouts were 100% return of capital in 1974-6. Dividends have pronounced seasonality because of utility cost fluctuations in recent years, but variations should smooth as more apartments are converted to tenant meters.

Recent results & outlook: Earnings were reported at 35¢/sh. for the nine months through Sept. 1977, including 38¢/sh. gain on property sales as low-earning properties continue to be pruned. The operating loss of 2½¢/sh. for the nine months was sharply lower than the 24¢/sh. loss in 1976, and the trust operated profitably in both June and Sept. quarters. The Dec. dividend was boosted to 18¢/sh., bringing 1977 payout to 55¢ or 15% above 1976. Further improvement is likely and shares are mainly for an expected 9%-plus yield and longer-term gains. (KDC)

CITIZENS GROWTH PROPERTIES (3-3 3/4 OTC--CITGS) FY Jan. 31

Background: Citizens Growth was sponsored as a smaller equity trust by a Cleveland financial holding company. Operations began in 1972 but the trust encountered problems, partly from investments originated by a bankrupt Florida mortgage banker, and the dividend was suspended in June 1974. Over 75% of peak assets have been liquidated in recent quarters and proceeds used to repay over \$20 million bank debt to below \$1½ million now. The trust emerges from this deeply troubled period with about \$7.66/sh. book value left and the challenge of producing income from the 46% of assets still not earning.

Real Estate Investments: Three large Oklahoma City office buildings with \$10 million gross investment were sold to another REIT, First Union RE, in the Oct. 1977 quarter and a Berea, O. industrial property swapped to a bank. This left CGP with \$12 million invested assets, divided 42% short-term mortgages largely arising from sale of assets, 37% income producing properties, and 21% real estate acquired in foreclosure.

The \$4.5 million operating properties include a \$1.1 million Twinsburg, O. warehouse, sold in the Jan. 1978 quarter; \$1.6 million Carriage House apartments in Spartanburg, N.C.; \$473,000 equity in a 124-room Sheraton motel in Springfield, Ill.; \$286,000 in land in Southfield, Mich.; and \$444,000 in three Detroit commercial parcels being used as car-wash sites. (Three other carwash sites have been sold with the trust providing mortgage financing.) Both the Spartanburg apartments and the Springfield motel are said to be doing well, the motel under management by a partially owned corporation.

Earning mortgages include a second mortgage on an Austin, Tex. Quality Inn and the three Detroit carwash sites. Nonearning mortgages are secured by four land parcels, including three with development programs.

Real estate acquired in foreclosure of \$2.5 million is all land, including parcels in Atlanta and Albany, Ga.; in Tallahassee and Pensacola, Fla.; and in Columbus, O. Altogether eight separate parcels are held, most for residential use. Exceptions are a parcel in the Commonwealth office park in Tallahassee, which may be sold; and a Columbus industrial tract that is the last vacant parcel in a completed industrial park.

Financing: CGP owed \$3.5 million at Oct. 31, 1977 including \$1½ million to two Ohio banks and \$2 million mortgages. The Twinsburg warehouse sale will slice \$1 million off mortgage debt. CGP has cut bank debt from a peak \$21.6 million by combining asset swaps to banks and sales to third-party buyers. The remaining two banks aren't amenable to swaps and look toward land sales to repay them by 1980. Management: The trust is advised by Citizens Advisory Corp., former subsidiary of Citizens Financial Corp. It also advises National Mortgage Fund, formerly a short-term mortgage trust that completed Ch. XI reorganization in Dec. 1976.

Results & outlook: CGP lost 48¢/sh. from operations for the nine months to Oct. 1977 before a 6¢/sh. gain on asset sales and swaps. The operating loss was 14¢/sh. in the Oct. quarter. This continues a pattern of diminishing operating losses; breakeven operations however will require further reduction in idle assets, particularly liquidation of foreclosed land. While recovery timing cannot be projected precisely, the major reduction in bank and mortgage debt should cut losses further and stabilize book value. Recovery is long-term. (KDC)

GENERAL REAL ESTATE SHARES (6-6 3/4 OTC--GRELS) FY Dec. 31

Background: Formed in 1963 and financed with shares sold at \$10 in 1963 and 1966, this smaller property trust owns a diversified portfolio of income properties generally acquired in the 1960s. Several Texas apartment acquisitions made in 1972 proved disappointing and were sold during 1977, letting the trust repay a relatively heavy load of short-term bank debt. Dividends were suspended in 1973 but could be resumed during 1978 or 1979.

Real estate investments: General sold five Texas apartment projects with 860 dwelling units in 1977 for about \$8 million consideration, using net cash proceeds to repay over \$3 million of bank debt incurred to buy the properties. The projects, one in Dallas and four in outlying Arlington, had suffered from competitive markets and disappointing cash yields to the trust. But demand for finished properties is strong from tax-shelter syndicates and the trust was able to find suitable buyers.

This leaves General with \$13.2 million invested assets before depreciation, divided 41% ownership of two office buildings with 179,000 sf, 35% in three shopping centers with 296,000 sf, and 24% in two apartments with 249 units. The 244,000 sf

Eastgate Shopping Center in Wichita has substantially recovered from opening of a new regional enclosed mall across the highway and departure of one anchor, J.C. Penney. Ardan's, local catalog store, replaced Penney and center results are moving back up. Largest office is 10-story 135,700 sf Flagship Bank Building in downtown Tampa, which is currently well rented in a good market after experiencing some softness when newer buildings opened. Apartments are the 161-unit Dearborn Town & Country, Dearborn Heights, Mich., and 88-unit Peoria North in Peoria, Ill. Both stay essentially fully occupied with stable tenancies.

Financing: After repaying short-term debt in 1977, General owes only \$5.9 million mortgage debt over its \$3.9 million shareholders' equity, equal to \$6.94 share at Sept. 1977. Accumulated depreciation is \$4.45 million or \$8/share.

Management: The trust is managed by its trustees and employs local property managers at its properties. Richard D. Arnos is managing trustee.

Dividends: Last paid 1973. The trust has remained qualified as a real estate investment trust and must pay 90% of earnings as dividends to shareholders. However the trust had a 75¢/sh. net operating loss carryforward available to offset future income before payouts would be required.

Recent results & outlook: Operations slipped 3¢/sh. into the red in the Sept. 1977 quarter, reversing small profits in the first two quarters. Deterioration of earnings in the Arlington, Tex. apartments and higher repair costs in Wichita were blamed. General booked 60¢/sh. gains on sale of the Dallas apartments in the June 1977 quarter and the Arlington, Tex. apartment sale in Oct. 1977 could add \$2.65/sh. gains, although some or all may be deferred until a \$2 million second mortgage is collected. Shares are speculation on earnings recovery and possible dividend resumption in 1978 or 1979. (KDC)

REAL ESTATE INVESTMENT PROPERTIES (20-22 OTC--REIPS) FY June 30

Background: This trust resulted from merger of two smaller trusts in September 1977 to create a trust with 480,000 shares outstanding and market value near \$10 million. Predecessor trusts were named Vagabond Real Estate Equities and Vagabond Investment Properties and the new name was chosen to end confusion with Vagabond Hotels, Inc., publicly owned hotel company that leases six motor inns from the trust. (See RTR, June 10, 1977 for earlier discussion.)

Real estate investments: REIP owns fully and without debt six motor hotels with 645 rooms in California and Nevada. All are operated by Vagabond Hotels, Inc. under 25-year leases with two renewal options; Vagabond in turn subleases restaurant facilities to Colony Kitchens, Inc. All motor hotels were built for the trust by Vagabond Hotels under fixed-price contracts and purchased at construction cost by the trust from 1973 to 1975 at original cost averaging \$12,120/room. The leases back to Vagabond call for minimum guaranteed annual rentals against percentage rentals based upon gross room, restaurant and bar sales. All lease payments to the trust are net of property taxes, operating expenses, maintenance and insurance so REIP is not directly involved in hotel operations. Leases run for 25 years with two five-year renewal options.

REIP regularly reports to its shareholders detailed results of operations at each of the six hotels so performance at each unit can be measured precisely and routinely. Here's how the six properties are doing in the most recent quarter (all are in California except the Reno, Nev. unit):

	<u>Stockton</u>	<u>Modesto</u>	<u>Woodland Hills</u>	<u>Rosemead</u>	<u>Sacramento</u>	<u>Reno</u>	<u>Total</u>
No. of rooms.....	102	100	111	102	109	132	645
% Occupancy 9/77.....	67%	69%	94%	84%	79%	81%	76%
Change in % from 1976.	+2	-2	+5	+7	+11	+5	+5
% Chng. in Room sales.	+8%	+4%	+16%	+15%	+27%	+14%	+14%

Overage income, or percentages of sales above pre-determined bases, were about 23% of total income in the June 1977 year as these properties mature and room rates keep benefitting from inflation. The Reno and Sacramento units were somewhat slower

to mature but are now showing good gains both in average room rates and occupancies. Food and bar sales at Modesto and Sacramento have improved in recent quarters, and the Sacramento food operation was remodeled in May 1977. Rosemead food sales are down, however.

Financing: The trust has no mortgage debt and owns all properties free and clear of encumbrances. Shareholders must approve any borrowings, even mortgage debt, as part of the trust effort to appeal to conservative investors seeking stable income. Shares of both constituent trusts were originally sold at \$20/sh., adjusted for subsequent splits. Accumulated depreciation now amounts to \$688,000 or \$1.43/sh. and net book value is \$15.16/sh.

Management: The trust is managed on a part-time basis by president John F. Rothman who helped form the trusts when he was with the original underwriting firm; he is also an officer of an unrelated motor hotel chain. Management and administrative expenses of the combined trust were 1.56% of invested assets in the June 1977 fiscal year.

Recent results & outlook: The trust earned 43¢/sh. in the Sept. 1977 quarter, first reported on a combined basis, before an 11¢/sh. charge for merger expenses. Results included 14¢/sh. accrued overage rents. A 48¢/sh. dividend was declared for the Dec. 1977 quarter and trustees hope that percentage rents for 1977 (they are paid annually for three units) will allow cash distributions to be increased early in 1978. The shares thus yield about 9½% with possible dividend boosts as motels mature. (KDC)

PITTSBURGH & WEST VIRGINIA RAILROAD (7 1/8--ASE-PW) FY Dec. 31

The trust was organized as a business trust in 1967 and qualifies as a real estate investment trust. Its properties (railroad lines) are leased to the Norfolk and Western Railway for 99 years, renewable in perpetuity, for \$915,000 annual cash rental. Earnings rely on the Norfolk's continued ability to pay this lease, a high priority. Dividends run about 90% of cash earnings providing some cushion. The dividend will not be raised from its 14¢/share quarterly. Some confusion arose when 1976 results were reported which included a noncash item arising from amortization which became deductible for income tax purposes. The cash income, however, remains fixed. This is therefore virtually a fixed income security although the shares have some volatility. The shares have limited yield attraction at current levels. (BS)

TERRYDALE REALTY TRUST (14½-15½--OTC-TRYLS) FY Sept. 30

Background: The trust was formed in 1972 to acquire twelve office buildings owned by Russell Gramlich. Subsequent sale of shares to the public in 1973 left Mr. Gramlich with 29% of the trust's shares. There have been a few portfolio changes since the public funds were invested but depreciated portfolio size is little changed from the first year after the public's investment.

Real estate investments: Net invested assets were \$13.7 million at the end of fiscal 1977. A small, regional, property trust, holdings by depreciated value were 78% ownership in 12 office buildings (a small office was sold in Dec. 1977) containing 538,000 sf plus a 7,256 sf retail store. The other 22% was almost entirely a \$3 million wrap-around loan, also on an office building, with equity features of an override of 20% of the building's revenues over \$1.6 million. This brought the trust's return on the wrap to 12% in fiscal 1977 compared to the base yield of 10%. The buildings are all in the midwest to Rocky Mountain sector except for one in Miami, Fla. Clustered around the trust's Missouri base, most of the investment is in three buildings: 143,500 sf Petroleum Club Building in Denver, Col. carried for a gross \$3.7 million; 200,000 sf Traders Bank Building, Kansas City, Mo. at a gross \$3.9 million; and the Lincoln Tower, Denver on which the \$3 million wrap mortgage is held.

Tenants of these buildings are financially strong with the great majority of the buildings having remained fully occupied in the recent years since the trust's formation. Many tenants are prominent national firms. For example, the retail store

is leased to Goodyear Tire. Property performance is fairly good. Free and clear return (before interest and depreciation) on gross investment was 9.7% in fiscal 1977. Since going public, net cash flow results have trended flat as rising operating expenses, particularly those incurred during fiscal 1977's cold winter, have matched rents under escalation. Refinancing has shifted the composition of cash flow from earnings to depreciation thus causing a slight earnings decline.

Financing: Debt of \$9.3 million consisted 96% of secured mortgages and was leveraged 2.1 times equity. This is a modest ratio for an equity trust. There are 240,000 warrants out exercisable at \$18.25/share to Feb. 1981.

Management: The trust pays Terrydale Management a percentage of rents for managing the properties and an advisory fee of 1% of the difference between property book value and their mortgages plus 1% of mortgage loans.

Dividends: The trust has paid 37¢ quarterly since Sept. 1973. This exceeded earnings the past two years but was below net cash flow.

Recent results & outlook: In the yearend September quarter, net cash flow was 30¢/share and earnings 27¢. This brought fiscal 1977 results to \$1.54 and \$1.31, respectively. The addition of a major new building boosted rentals and depreciation but refinancing added to interest expense and greater operating costs were required which lowered earnings. Some improvement should be made in fiscal 1978. The shares are suitable for current yield and have high underlying asset value in marketable properties with gross book value of \$19.84/share counting depreciation of \$6.64. (BS)

REAL ESTATE INVESTMENT TRUST OF CALIFORNIA (13B--OTC-RECAL) FY Dec. 31

Background: The trust was formed in 1969 in a change of organizational form of its predecessor company engaged in real estate since 1961. That firm was a successor to a lumber company started in 1890. Evolving from such holdings as lumber yards which were upgraded as real estate and sold, the trust took its present form remaining a very localized situation. All properties are in Ventura County, southern California.

Real estate investments: The depreciated portfolio was \$5.7 million on Sept. 30 of which 89% was properties and 11% mortgage held on properties sold. Consisting of 14 small income producing properties and a piece of vacant land, holdings by gross value are concentrated 39% in two apartments, 21% in a shopping center and 17% in a medical clinic. Most of the rest are small retail buildings. No vacancies or delinquencies were reported with all properties providing satisfactory returns. Properties are bread and butter type, modest in function and rent. The largest holding is a \$1.9 million apartment complex in Camarillo, Cal. Built between 1964-66, this 150-unit garden apartment project offers amenities and is priced upper-middle income: \$195-270/monthly for bachelor to two-bedroom units. Five properties were sold in 1976 including four earning under the 9½% the trust is receiving on the mortgage loans created by the sales. This raised total portfolio return.

This very small, geographically compact trust has been very intensively managed. The few less satisfactory properties were sold and the remaining upgraded, occupancies increased and/or rents raised in the course of lease expirations. Result is one of the highest free and clear returns (before depreciation and interest) on gross properties, 15.1%, among trusts, usually attainable by only smaller, local factors. Return on shareholders' equity more than doubled in the past five years to 1976.

Financing: On Nov. 30, debt of \$2.6 million, all secured mortgages, was leveraged 0.5 times equity of \$5.1 million. Equity was increased \$1.8 million by a shareholders' rights offering begun in May, 1977 under which 175,884 shares at \$10 were sold.

Management: The trust is internally administered. Dividends: The trust has paid dividends since its inception. In 1977, 30¢ quarterly was paid with 15¢ extra in the fourth quarter, the trust's usual cleanup period. This brought 1977's payment to \$1.35, all but 2¢ of which was ordinary income.

Recent results & outlook: In the eleven months ended Nov. 30, earnings before capital gains increased 25% but per share net was only 2¢ higher because of increased shares out from the 1977 offering. Further internal improvements could provide more

gains in 1978 but the extent must await conditions. The big swing, near and long-term, will hinge on the return obtainable from new investments with the \$2 million of funds available. Selling 19% over gross book value of \$10.91, which includes \$1.63 depreciation, the shares are not statistically cheap but reflect the obvious quality and high return on assets. Taken together with management's attention, the shares merit consideration by small investors willing to seek them out in a thin market for fair yield and possible growth. (BS)

UNIVERSITY REAL ESTATE TRUST (10 3/4-11½--OTC-URETS) FY June 30

Background: The trust was formed in 1974 with an initial public offering by the sponsor, University Group, which also served as the broker-dealer. University Group is a real estate company offering investment analysis, acquisition, brokerage, syndication, property management, etc. In turn, it is part of a financial services group of firms ultimately owned and/or controlled by Gulf + Western Ind.

Real estate investments: The trust has taken an equity orientation. The portfolio stood at \$41.5 million on Sept. 30. Properties owned accounted for 86%, GNMA securities 10% and notes receivable for 4%. The property mix was 56% apartments, 31% industrial properties, 6% shopping center, 5% office buildings and 3% mobile home park. Holdings are dispersed geographically with sizeable apartment positions in Houston, Texas and to a lesser extent in Atlanta, Ga. Smaller apartment projects are in Bossier City, Louisiana and Seattle, Wash. Significant industrial parks are in San Dimas, Cal., Concord, Cal. and Pompano Beach, Fla. There is an office building in Mid-Wilshire Los Angeles and a shopping center in Bridgeton, Mo. Properties are fairly young, most less than ten years old. Occupancies are quite high, ranging in the high 90% area. Although purchased recently, the cost basis is very reasonable relative to replacement costs. A cash-on-cash return of over 9½% on the properties was claimed for fiscal 1977 (June). And we calculate an 8.1% free and clear return (before depreciation and interest) on average gross investment for the year. With the portfolio undergoing rapid buildup, performance is necessarily in flux.

Financing: Debt on Sept. 30 of \$28 million, virtually all secured mortgages, was 1.7 times equity. Dividends: Monthly payments began in October 1974, a few months after the trust's startup. All of the 60¢ and 70¢/share paid in fiscal 1977 and 1976, respectively, was tax free, return of capital. From July to September, 1977, 8¢ monthly was paid.

Recent results & outlook: In the quarter ended Sept. 30, an operating loss of 4¢/share was incurred. Net cash flow was 8¢ on average shares with mortgage amortization only 28% of depreciation. Additionally, there was a capital gain of \$1.01 from sale of a Houston apartment project. The shares have underlying asset value with \$9.30/share gross book value including 59¢ depreciation, slightly below market price. Maturity of the properties in an improving real estate environment in the trust's markets could raise operating results. (BS)

COMMONWEALTH REALTY TRUST (8-9--OTC-CRTYC) FY Nov. 30

Background: Formed in 1961 in Pennsylvania, Commonwealth operated for many years as a small trust with limited holdings. Beginning in Oct. 1974, the trust sold \$3 million of Class B and C shares to two British companies, British & Commonwealth Shipping Co., Ltd. (B shares) and County and New Town Properties, Ltd. (C shares). This doubled the equity letting Commonwealth double the portfolio to \$29 million.

Real estate investments: Assets of \$33 million gross before depreciation at Aug. 1977 were 67% office buildings and 33% shopping centers. Mortgages were \$2 million. Portfolio turned rapidly of late as properties judged to have limited potential were sold. In July 1977, four auto showrooms leased to Chrysler Realty were sold for \$2.6 million; the trust reported \$475,000 gains in the Aug. quarter (40¢/share diluted) deferring 25¢. Two office buildings of 110,000 sf known as Plaza Executive Center-Central in Miami are in sale negotiations, and the trust has decided to sell, by auction if necessary, the troubled 67,000 sf Doyal Bldg. in Atlanta where a U.S. agency vacated 97½% of space in Oct. 1976. Other office properties are being expanded, most activity taking place at 75%-owned Plaza Executive Center-North in Miami, being expanded to 135,000 sf; and 60%-owned Valley Forge Executive Mall northwest of Phila-

delphia where 130,000 sf of 470,000 sf have been leased since purchase in Nov. 1976. Commonwealth has a priority interest in both holdings.

Financing: Properties are held subject to \$20 million mortgage debt and \$2 million bank loans. Equity of all classes of shares is \$8 million. Dividends: Paid quarterly. Class A original shares and new Class C shares participate fully in Class A dividends. Class B shares cannot receive dividends from funds generated by operations before Sept. 30, 1979. Class C shares are convertible share-for-share into Class A shares, and Class B shares are convertible share-for-share upon payment of a premium scaling down from \$2.10/sh. at Nov. 1976.

Recent results & outlook: The trust earned 45¢/sh. fully diluted in the Aug. 1977 quarter, including the 40¢/sh. capital gain. This constitutes the bulk of the 47¢/sh. earnings for the nine months. Full year results likely will continue the trend of moderate recovery. The 80¢ annual dividend provides 8% yield now and could be upgraded in one-two years if problems abate and newer acquisitions mature. (KDC)

DELAWARE VALLEY REALTY & MORTGAGE INVESTORS (12-3/4-13½ OTC--DVRMS) FY Dec. 31

Background: The trust was formed in 1971 in association with a consumer finance company and sold shares publicly in 1973 and 1976. Dividends have been paid continuously but invested assets rely heavily on the sponsor.

Real estate investments: Invested assets of \$16.6 million were 22% industrial properties leased to affiliates of the adviser and 78% receivables, including 49% commercial financings extended principally to affiliates, 22% consumer installment loans, 3% wrap-around mortgages, and 3% miscellaneous receivables. Commercial financings are secured by industrial property in New York, New Jersey and Georgia and residential properties in Virginia, all with \$5 million prior first and second mortgages. About \$4.3 million of the \$8.2 million outstanding principal is guaranteed by affiliates. Consumer installment loans were mainly to fund home improvements or debt consolidation, mainly secured by second home mortgages.

Financing: Long-term debt of \$7.4 million is mainly secured by real property and the consumer loans. Shareholders' equity of \$9 million equals \$10.01/sh. Management & affiliates: Kenrich Corp. owns controlling interest in the adviser; Delaware Valley Consumer Credit; and North Lake Corp., among others. North Lake in turn holds 39% of the trust's common shares. Dividends: Paid monthly at 11½¢, \$1.38 annually.

Recent results & outlook: The trust earned 31¢/sh. in the Sept. 1977 quarter and \$1.13/sh. in the nine months. Shares are mainly higher-risk income vehicles. (KDC)

PRUDENT REAL ESTATE TRUST (2 3/4--ASE-PRU) FY Nov. 30

Background: Organized in 1961 as Leader-Durst Corp., PRU adopted trust format in 1964 qualifying as a real estate investment trust except FY 1969-71 when oil and gas operations prevented qualification. These became unprofitable and were discontinued in 1971.

Real estate investments: PRU's properties were \$47 million at Nov. 1976 fiscal yearend, net of \$20 million, \$6.27/sh., depreciation. In 13 states and Canada, 67% are in apartments: nine garden type projects with 3,873 units and two New York State high-risers with 942 units; 18% in five office buildings with 362,000 sf; and 10% in three shopping centers with 442,000 sf. Most were built between 1946 and the mid-1960s. About 80% of apartments were built in the 1950s and a 100-unit project from 1946 was recently rehabilitated.

Financing: PRU is financed \$29 million mortgages on properties plus \$7 million obligation under a capitalized lease and a \$1 million 10% 1982 note convertible at \$3/sh. Shareholders' equity of \$9.7 million equals \$3.02/sh.

Management: The trust is administered by its trustees. Dividends: Paid quarterly. Approximately 85% (or 14¢) of the 16¢/sh. paid in FY 1976 was taxable as capital gains. Dividends are at 20¢/sh. annual rate.

Recent results & outlook: PRU earned 3¢/sh. in FY 1976 after 9¢/sh. gain on sales of interests in properties, including adjustment of capital gains taxes paid in 1974. Operating losses amounted to 5¢/sh. in the first nine months of FY 1977, up slightly from 1976. PRU's earnings have been below industry norms for several years and must be increased substantially for shares to have real attraction. (KDC)